

Message Text

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TO SECSTATE WASHDC PRIORITY 1376
INFO AMEMBASSY COPENHAGEN
AMEMBASSY MOSCOW
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
USMISSION NATO
USMISSION OECD PARIS
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 1029

EO 11652: GDS
TAGS: EEWT, FI, UR
SUBJECT: FINNISH-SOVIET LONG-TERM ECONOMIC PROGRAM

REF: (A) MOSCOW 6804, (B) HELSINKI A-77, (C) 76 HELSINKI A-137

1. SUMMARY: FINNS SEE UNPRECEDENTED LONG-TERM ECONOMIC PROGRAM SIGNED MAY 18 WITH SOVIET UNION, WHICH THEY FIRST BROACHED AND HAVE TAKEN THE LEAD ON IN BILATERAL NEGOTIATIONS, AS PARTICULARLY BENEFICIAL TO FINLAND'S SHIP-BUILDING INDUSTRY IN PROVIDING BASIS FOR CONTINUING FLOW OF SOVIET ORDERS FROM ONE FIVE-YEAR PLAN PERIOD TO NEXT. THEY BELIEVE IT SHOULD ALSO ENCOURAGE STABILITY IN TRADE RELATIONS. WHILE LONG-TERM PROGRAM HAS TEN SECTIONS COVERING WHOLE RANGE OF FINNISH-SOVIET ECONOMIC RELATIONS, FINNS CONSIDER TRADE DEVELOPMENT SECTION AS MOST
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IMPORTANT. IT SETS TARGETS THROUGH 1990 FOR TOTAL TRADE VALUE, FINLAND'S SHIP EXPORTS TO USSR AND MACHINERY AND EQUIPMENT IMPORTS FROM USSR. FINNISH OFFICIALS BELIEVE THAT NEW PROGRAM WILL ENHANCE FINLAND'S COMPETITIVENESS IN SOVIET UNION, AND HAVE NO WISH TO SEE OTHER WESTERN NATIONS EMULATE IT.
END SUMMARY.

2. BACKGROUND. FOLLOWING DRAWN FROM DISCUSSIONS WITH MFA, MINISTRY OF COMMERCE AND INDUSTRY, BANK OF FINLAND, AND METAL INDUSTRY ASSOCIATION OFFICIALS, AND REVIEW OF DOCUMENT AS SIGNED. FOR PAST 20 YEARS FINLAND HAS HAD DIFFICULTY WITH FIVE-YEAR DURATION OF TRADE AGREEMENTS WITH SOVIET UNION, PARTICULARLY IN SHIP-BUILDING INDUSTRY, A MAJOR SUPPLIER TO THE USSR. TOWARD END OF FIVE-YEAR PERIODS FINNISH SHIPYARDS WERE UNABLE TO OBTAIN SOVIET PURCHASE COMMITMENTS SUFFICIENTLY FAR IN ADVANCE FOR NORMAL CONSTRUCTION PERIOD OF THREE YEARS OR SO. THE GENESIS OF THE LONG-RANGE PROGRAM TRACES BACK TO AN INITIATIVE ORIGINATING WITH THE SHIP-BUILDING INDUSTRY AND TAKEN UP BY FINNISH GOVERNMENT. FINNS FIRST THOUGHT OF TEN-YEAR AGREEMENT, WHICH KEKKONEN SUGGESTED DURING VISIT TO SOVIET UNION IN MARCH 1975. SOVIETS COUNTERED WITH SUGGESTION OF 15-20-YEAR AGREEMENT AND COMMUNIQUE AT CONCLUSION OF VISIT STATED THAT FINLAND AND SOVIET UNION WOULD PREPARE FIFTEEN-YEAR ECONOMIC PROGRAM. PRINCIPAL FINNISH OBJECTIVES AT THAT POINT WERE TRADE-RELATED: ELIMINATING FLUCTUATIONS CITED ABOVE AND GAINING DEGREE OF ASSURANCE THAT BILATERAL TRADE, WHICH FINNS SEE AS HIGHLY ADVANTAGEOUS ECONOMICALLY, WOULD CONTINUE WITHOUT BECOMING HOSTAGE TO POLITICAL VICISSITUDES. HOWEVER, DURING PAST YEAR PROGRAM EXPANDED TO INCLUDE NINE ADDITIONAL AREAS OF COOPERATION.

3. MAIN FEATURES OF LONG-TERM ECONOMIC PROGRAM:

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(A) TRADE DEVELOPMENT. THIS SECTION REMAINS THE MOST IMPORTANT TO FINNS. PROGRAM PROJECTS TOTAL FINNISH-SOVIET TRADE FOR 1981-85 AND 1986-90 AGREEMENTS RESPECTIVELY AT 12 AND 14-16 BILLION RUBLES. FINLAND ESTIMATES THAT IT WILL IMPORT IN 1981-85 232-283 MILLION RUBLES OF SOVIET EQUIPMENT AND MACHINERY (WE UNDERSTAND SOVIETS PUSHED ESPECIALLY HARD IN THIS AREA). WHILE SOVIET UNION FOR ITS PART, ESTIMATES THAT IT WILL PURCHASE IN 1981-85 AND 1986-90 RESPECTIVELY 1400-1600 AND 1600-1800 MILLION RUBLES OF SHIPS. FINAL SOVIET DECISION ON TRADE TARGETS WAS MADE ONLY WEEKS BEFORE SIGNING OF PROGRAM. A LEADING FINNISH GOAL HAD BECOME INCORPORATION OF FIRM ESTIMATES OF OIL IMPORTS FOR 1981-85 AND 1986-90 TRADE AGREEMENTS. (IMPORTS OF PETROLEUM PRODUCTS ACCOUNTED FOR 65 PERCENT OF IMPORTS FROM USSR LAST YEAR.) SOVIETS WERE UNWILLING TO GIVE TRADE TARGETS (REF B), BUT FINNS WERE ABLE TO GET INCLUDED THE STATEMENT THAT "BOTH PARTIES WILL PRESENT THEIR ESTIMATES OF ENERGY DELIVERIES FROM USSR TO

FINLAND AT SAME TIME, WHEN THEY CONCLUDE THE NEXT FIVE-YEAR
TRADE AND PAYMENTS AGREEMENT."

(B) COOPERATION ON INDUSTRIAL AND OTHER PROJECTS
INCLUDING PROJECTS ON COMPENSATION BASIS. THIS
SECTION MENTIONS FINLAND'S PARTICIPATION IN CONSTRUCTION
OF KOSTAMUS, SVETOGORSK AND PAAJARVI PROJECTS AND
SOVIET UNION'S PARTICIPATION IN DEVELOPMENT OF 1000
MY ATOMIC POWER PLANT AND EXPANSION OF STEEL MILL IN
RAAHE. TWO MONTHS AGO FINNISH TRADE OFFICIALS DID
NOT EXPECT FINAL AGREEMENT ON TERMS OF IMPORTANT
KOSTAMUS PROJECT, WHICH NEGOTIATED ONLY DAYS BEFORE
KEKKONEN'S DEPARTURE.

(C) PRODUCTION COOPERATION AND SPECIALIZATION.
SOVIETS INTRODUCED THIS SECTION IN EFFORT TO INCREASE
PURCHASES OF SOVIET MACHINERY AND EQUIPMENT IN FINNISH
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PRODUCTS. HOWEVER, THERE IS NOTHING SPECIFIED ABOUT
VALUE FINLAND IS EXPECTED TO PURCHASE FOR THIS PURPOSE
DURING COURSE OF ECONOMIC PROGRAM.

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C O N F I D E N T I A L SECTION 2 OF 2 HELSINKI 1029

(D) COOPERATION IN TRANSPORTATION AND COMMUNICATION. THIS SECTION DEALS WITH IMPROVEMENT OF TRANSPORTATION BY RAIL, WATER AND LAND BETWEEN THE TWO COUNTRIES FINLAND HOPES TO GET LANDING RIGHTS FOR FINNAIR IN LENINGRAD ON ROUTE TO TOKYO. QUESTION OF NEW LANDING RIGHTS IN SOVIET UNION IS MENTIONED VAGUELY IN PROGRAM, AND WILL NOT BE NEGOTIATED UNTIL FINNAIR HAS SECURED LANDING RIGHTS IN TOKYO.

(E) COOPERATION IN PAYMENTS AND CREDIT RELATIONS AS WELL AS TAXATION. SOVIETS IN NEGOTIATIONS SUGGESTED THAT FINLAND CONSIDER REPLACEMENT OF PRESENT CLEARING-ACCOUNT ARRANGEMENT WITH CONVERTIBLE CURRENCY. NEVERTHELESS, FINNS WERE ABLE TO INCLUDE THIS SECTION WHICH ASSURES CONTINUATION OF FINANCIAL BASIS FOR BILATERAL TRADE. MAINTENANCE OF CLEARING-ACCOUNT BASIS IN FENNO-CONFIDENTIAL

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SOVIET TRADE EXTREMELY IMPORTANT TO FINLAND. IT ENSURES STEADY EXPORT MARKETS AND INDUSTRIAL EMPLOYMENT DURING HARD TIMES AND REDUCES NEED TO EARN CONVERTIBLE CURRENCIES WHICH WOULD OTHERWISE HAVE TO BE USED TO PURCHASE ENERGY IMPORTS. FINNISH PRODUCERS OF CAPITAL EQUIPMENT LIKE IT BECAUSE IT ENSURES IMMEDIATE PAYMENT. FINNS ARE CONVINCED VOLUME OF FENNO-SOVIET TRADE MUCH HIGHER BECAUSE OF THIS MECHANISM.

(F) PROGRAM INCLUDES OTHER SECTIONS DEALING WITH COOPERATION IN ENERGY, ENVIRONMENT, GEOLOGY, SCIENCE AND TECHNOLOGY. IT CONCLUDES WITH STATEMENT THAT AT NEGOTIATION OF NEXT AND SUCCEEDING FIVE-YEAR TRADE AGREEMENTS, LONG-TERM ECONOMIC PROGRAM WILL BE RE-NEGOTIATED TO REFLECT ANTICIPATED ECONOMIC DEVELOPMENTS BETWEEN TWO COUNTRIES.

4. FINNISH TRADE OFFICIAL WHO HAS BEEN INVOLVED WITH DRAFTING AND NEGOTIATING OF ECONOMIC PROGRAM DURING PAST TWO YEARS RELATED FINLAND DEVELOPED SMALL TEAM WHICH WAS ABLE TO REACT WITHIN DAYS ON PARTICULAR ISSUES WHILE DEALING WITH SOVIETS' HEAVY AND SLOW BUREACRACY. AS GENERAL RULE, FINNS TOOK MOST OF INITIATIVES IN DEVELOPMENT AND DIRECTION OF NEW ECONOMIC PROGRAM, AS THEY DO IN ANNUAL TRADE PROTOCOL NEGOTIATIONS. KEKKONEN'S MEETING WITH BREZHNEV IN MARCH 1975 WAS ESSENTIAL FOR CONCLUSION OF LONG-TERM

PROGRAM. BREZHNEV'S APPROVAL IN PRINCIPLE MADE IT MUCH EASIER FOR FINNS TO DEAL WITH SOVIET DECISION-MAKERS.

5. FINNS CONSIDER NEW PROGRAM AJOOR ASSET IN FINLAND'S ECONOMIC AND POLITICAL RELATIONS WITH USSR. THEY STRESS THAT DEVELOPMENT OF LONG-TERM RELATIONS WITH SOVIET UNION DURING PERIOD OF STABILITY WOULD ASSURE THAT THOSE RELATIONS WOULD REMAIN STABLE AND DEFINED
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DURING PERIOD OF UNCERTAINTY. THOUGHT HAS ALSO BEEN EXPRESSED THAT FINLAND'S SOVIET TRADE PROVIDES SOVIET UNION WITH POLITICALLY LOWER THRESHOLD TO EXPRESS DISPLEASURE WHILE GIVING THE FINNS MORE TIME AND ROOM TO NEGOTIATE.

6. FINNS HAVE NO WISH TO SEE OTHERS EMULATE PROGRAM. TRADE OFFICIALS PERCEIVE COMPETITIVE ADVANTAGE GAINED THROUGH NEW ECONOMIC PROGRAM. FINLAND HOPES TO COMMIT SOVIET UNION TO LONG-TERM TRADE PATTERNS BEFORE OTHER WESTERN COUNTRIES HAVE HAD CHANCE TO MAKE COMPETING OFFERS. SIGNIFICANCE OF SOVIET TRADE TO FINLAND AND HIGH FINNISH PRICES STRENGTHEN FINLAND'S INTEREST IN AVOIDING COMPETITION FROM OTHER COUNTRIES.

7. FINNISH OFFICIALS EXPECT THAT SOVIET UNION MAY ATTEMPT TO SELL LONG-TERM ECONOMIC PROGRAM AS MODEL FOR HANDLING TRADE RELATIONS BETWEEN SOVIET UNION AND SOME WESTERN COUNTRIES. (HOWEVER, AS SOVIET EMBASSY OFFICIAL TODAY ALSO COMMENTED, UNIQUENESS AND RELATIVE IMPORTANCE OF FINNISH-SOVIET TRADE WILL MAKE IT DIFFICULT FOR WESTERN COUNTRIES TO CONCLUDE SIMILAR AGREEMENTS WITH USSR.) FINNISH OFFICIALS GUESS THAT FRANCE MIGHT BE PRONE TO TRY TO COPY LONG-TERM ECONOMIC PROGRAM BECAUSE FRANCE RELIES ON CENTRALIZED PLANNING AND LIKES TO BE AMONG FIRST IN DEVELOPING RELATIONS WITH SOVIET UNION.

8. COMMENT: FINNS PURSUED VERY ENERGETIC, INNOVATIVE COMPLEX TRADE STRATEGY WITH USSR, AND HAVE ACQUIRED REMARKABLY ADVANTAGEOUS TRADE STRUCTURE OVER THE YEARS. THE BILATERAL PROGRAM, WHICH STRIKES US AS FAR FROM AN INTERNALLY INTEGRATED, COHERENT "PROGRAM", SEEMS MORE IMPRESSIVE TESTIMONY TO FINNISH PRAGMATISM THAN TO THE STRENGTH OF SOVIET LONG-TERM ECONOMIC PLANNING.
HOUSTON

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